

*Ontwa Township-Edwardsburg Police Department
Cass County, Michigan*

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

Year ended March 31, 2008

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INDEPENDENT AUDITORS' REPORT

Members of the Board Ontwa Township-Edwardsburg Police Department

We have audited the accompanying financial statements of the governmental activities and the major fund of Ontwa Township-Edwardsburg Police Department (the Department), as of March 31, 2008, and for the year then ended, which collectively comprise the Department's financial statements, as listed in the contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the respective financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of Ontwa Township-Edwardsburg Police Department as of March 31, 2008, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

The budgetary comparison schedule, as listed in the contents, is not a required part of the basic financial statements of the Ontwa Township-Edwardsburg Police Department, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the method of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The Department has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the financial statements.

Siegfried Crandall P.C.

September 29, 2008



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BASIC FINANCIAL STATEMENTS

Ontwa Township-Edwardsburg Police Department

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS

March 31, 2008

	<u>Operating Fund</u>	<u>Adjustments</u>	<u>Statement of net assets</u>
ASSETS			
Cash	\$ 53,297	\$ -	\$ 53,297
Receivables	390,404	-	390,404
Prepays	12,485	-	12,485
Total current assets	456,186	-	456,186
Fixed assets, net	-	63,143	63,143
Total assets	<u>\$ 456,186</u>	<u>\$ 63,143</u>	<u>\$ 519,329</u>
LIABILITIES			
Payables	\$ 33,556	\$ 2,578	\$ 36,134
Current portion of long-term debt	-	14,720	14,720
Total current liabilities	33,556	17,298	50,854
Long-term debt	-	6,456	6,456
Total liabilities	<u>33,556</u>	<u>23,754</u>	<u>57,310</u>
FUND BALANCE			
Fund balance - unreserved, undesignated	<u>422,630</u>	<u>(422,630)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 456,186</u>		
NET ASSETS			
Invested in capital assets, net of related debt		41,967	41,967
Unrestricted		<u>420,052</u>	<u>420,052</u>
Total net assets		<u>\$ 462,019</u>	<u>\$ 462,019</u>
Operating Fund - fund balance			\$ 422,630
Amounts reported in the statement of net assets are different because:			
Capital assets used in <i>governmental activities</i> are not financial resources and, therefore, are not reported in the fund.			
			63,143
Long-term liabilities, including notes payable, are not due and payable in the current period and, therefore, are not reported in the fund.			
			(21,176)
Compensated absences			
			<u>(2,578)</u>
Net assets of <i>governmental activities</i>			
			<u>\$ 462,019</u>

See notes to financial statements

Ontwa Township-Edwardsburg Police Department
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES/STATEMENT OF ACTIVITIES
Year ended March 31, 2008

	<u>Operating Fund</u>	<u>Adjustments</u>	<u>Statement of activities</u>
EXPENDITURES			
Police service - operations	\$ 633,769	\$ 20,916	\$ 654,685
Debt service:			
Principal	18,418	(18,418)	-
Interest	975	-	975
Capital outlays	<u>28,263</u>	<u>(28,263)</u>	<u>-</u>
Total expenditures	<u>681,425</u>	<u>(25,765)</u>	<u>655,660</u>
PROGRAM REVENUES			
Intergovernmental support:			
Local units	605,289	-	605,289
Federal	4,785	-	4,785
State	<u>3,355</u>	<u>-</u>	<u>3,355</u>
Total intergovernmental support	613,429	-	613,429
Fines and forfeitures	22,113	-	22,113
Charges for services	<u>6,545</u>	<u>-</u>	<u>6,545</u>
Total program revenues	<u>642,087</u>	<u>-</u>	<u>642,087</u>
NET PROGRAM REVENUES	(39,338)	25,765	(13,573)
GENERAL REVENUES			
Interest income	10,018	-	10,018
Proceeds from sale of assets/(loss on dispositions)	4,000	(6,079)	(2,079)
Proceeds from issuance of debt	<u>24,964</u>	<u>(24,964)</u>	<u>-</u>
EXCESS OF REVENUES OVER			
EXPENDITURES / CHANGE IN NET ASSETS	(356)	(5,278)	(5,634)
FUND BALANCES / NET ASSETS - BEGINNING	<u>422,986</u>	<u>44,667</u>	<u>467,653</u>
FUND BALANCES / NET ASSETS - ENDING	<u>\$ 422,630</u>	<u>\$ 39,389</u>	<u>\$ 462,019</u>

See notes to financial statements

Ontwa Township-Edwardsburg Police Department
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES/STATEMENT OF ACTIVITIES (Continued)
Year ended March 31, 2008

Net change in fund balance	\$ (356)
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Amounts reported in the statement of activity are different because:

Capital assets:

Current year additions	28,263
Provision for depreciation	(20,816)
Basis of assets sold	(6,079)

Long-term debt:

Proceeds from issuance of debt	(24,964)
Debt repayments	18,418

Change in compensated absences	<u>(100)</u>
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Change in net assets	<u>\$ (5,634)</u>
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See notes to financial statements

Ontwa Township-Edwardsburg Police Department
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Ontwa Township-Edwardsburg Police Department (the Department), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governments. The following is a summary of the more significant policies:

a) Reporting entity:

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Department. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Department has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a blended or discretely-presented component unit in the Department's financial statements. Also, the Department is not a component unit of any other entity.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all activities of the Department. Currently, all activities of the Department are classified as governmental activities, primarily supported by intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Intergovernmental support and other items not properly included among program revenues are reported instead as general revenue.

Financial statements are provided for the sole governmental fund as a separate column in the basic financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources, measurement focus, and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Intergovernmental revenues are recognized in the year for which they are intended. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources, measurement focus, and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Ontwa Township-Edwardsburg Police Department
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

State grants, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the Department.

The Department reports a single major governmental fund, the Operating Fund, which accounts for all financial resources of the Department.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Department has elected not to follow subsequent private-sector standards.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided and (2) operating grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all intergovernmental support.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

d) Assets, liabilities, and fund equity:

- i) Bank deposits* - Cash consists of demand deposits and savings accounts.
- ii) Prepaid items* - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.
- iii) Capital assets* - Capital assets, which consist of vehicles and equipment, are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Vehicles	5 years
Equipment	5 - 10 years

- iv) Fund equity* - In the fund financial statements, the Operating Fund reports reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Ontwa Township-Edwardsburg Police Department
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - CASH:

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes the Department to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Department's deposits are in accordance with statutory authority.

Custodial credit risk of deposits is the risk that, in the event of the failure of a depository financial institution, the Department will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of March 31, 2008, none of the Department's bank balances of \$58,095 was exposed to custodial credit risk because it was uninsured.

NOTE 3 - RECEIVABLES:

Receivables as of year end consist of the following (all are fully collectible and all are due within one year):

Intergovernmental	\$ 390,038
Accounts	<u>366</u>
Total	<u>\$ 390,404</u>

NOTE 4 - CAPITAL ASSETS:

Capital asset activity of the Department for the current year was as follows:

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Capital assets being depreciated:				
Vehicles	\$ 96,943	\$ 19,644	\$ (57,936)	\$ 58,651
Equipment	<u>82,742</u>	<u>8,619</u>	<u>(12,604)</u>	<u>78,757</u>
Total capital assets being depreciated	<u>179,685</u>	<u>28,263</u>	<u>(70,540)</u>	<u>137,408</u>
Less accumulated depreciation for:				
Vehicles	(69,114)	(10,748)	53,492	(26,370)
Equipment	<u>(48,796)</u>	<u>(10,068)</u>	<u>10,969</u>	<u>(47,895)</u>
Total accumulated depreciation	<u>(117,910)</u>	<u>(20,816)</u>	<u>64,461</u>	<u>(74,265)</u>
Capital assets, net	<u>\$ 61,775</u>	<u>\$ 7,447</u>	<u>\$ (6,079)</u>	<u>\$ 63,143</u>

Ontwa Township-Edwardsburg Police Department
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - PAYABLES:

Payables as of year end consist of the following:

Accounts	\$ 4,299
Payroll	<u>29,257</u>
	<u>\$ 33,556</u>

NOTE 6 - LONG-TERM OBLIGATIONS

At March 31, 2008, long-term obligations are comprised of the following:

\$19,479 4.74% Note payable, bank; due in quarterly installments of \$2,567, including interest, through July 2008	\$ 2,233
\$24,964 4.48% Note payable, bank; due in quarterly installments of \$3,282, including interest, through July 2009	<u>18,943</u>
	21,176
Compensated absences	<u>2,578</u>
	<u>\$ 23,754</u>

Long-term obligation activity for the year ended March 31, 2008, was as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Amounts due within one year</u>
\$19,479 Note payable, bank	\$ 14,629	\$ -	\$ (12,396)	\$ 2,233	\$ 2,233
\$24,964 Note payable, bank	-	24,964	(6,021)	18,943	12,487
	14,629	24,964	(18,417)	21,176	14,720
Compensated absences	<u>2,478</u>	<u>100</u>	<u>-</u>	<u>2,578</u>	<u>-</u>
Total long-term liabilities	<u>\$ 17,107</u>	<u>\$ 25,064</u>	<u>\$ (18,417)</u>	<u>\$ 23,754</u>	<u>\$ 14,720</u>

At March 31, 2008, debt service requirements, excluding compensated absences, were as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 14,720	\$ 657
2010	<u>6,455</u>	<u>109</u>
	<u>\$ 21,175</u>	<u>\$ 766</u>

Ontwa Township-Edwardsburg Police Department
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - PENSION PLAN:

The Department maintains a defined contribution pension for all full-time employees. Pension expense for the year ended March 31, 2008, was \$10,090. The Department is neither a trustee nor administrator of the plan, and, accordingly, the plan is not includable in these financial statements.

NOTE 8 - CLAIMS ARISING FROM RISKS OF LOSS:

The Department is exposed to various risks of loss to general liability, property and casualty, and workers' compensation. The risks of loss arising from general liability, building contents, workers' compensation, and casualty are managed through purchased commercial insurance.

NOTE 9 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - An annual budget is adopted on a basis consistent with generally accepted accounting principles for the Operating Fund. The budget document presents information by function and line items. The legal level of budgetary control adopted by the governing body is the function level. Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. Significant actual expenditures in excess of budgeted were as follows:

	<u>Amended budget</u>	<u>Actual</u>	<u>Variance</u>
Public safety - police	\$620,581	\$633,769	\$ (13,188)
Capital outlay	-	28,263	(28,263)

REQUIRED SUPPLEMENTARY INFORMATION

Ontwa Township-Edwardsburg Police Department
BUDGETARY COMPARISON SCHEDULE - Operating Fund
Year ended March 31, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Local unit support:				
Ontwa Township	\$ 505,281	\$ 505,281	\$ 522,453	\$ 17,172
Village of Edwardsburg	61,000	61,000	68,255	7,255
School	10,000	10,000	13,109	3,109
County	-	-	1,472	1,472
Total local unit support	576,281	576,281	605,289	29,008
Federal grants	8,000	8,000	4,785	(3,215)
State grants	7,300	7,300	3,355	(3,945)
Fines and forfeitures	16,500	16,500	22,113	5,613
Charges for services	9,500	9,500	6,545	(2,955)
Interest and rentals	6,000	6,000	10,018	4,018
Proceeds from sale of capital assets	1,500	1,500	4,000	2,500
Total revenues	625,081	625,081	656,105	31,024
EXPENDITURES				
Public safety - police:				
Personnel costs:				
Salaries and wages	377,881	375,742	385,042	(9,300)
Health and life insurance	77,500	77,500	78,412	(912)
Payroll taxes	39,500	39,336	33,911	5,425
Workers' compensation	15,500	15,500	18,206	(2,706)
Pension	12,600	12,600	10,090	2,510
Training and other	10,000	10,000	9,474	526
Vehicle operations	22,400	22,400	24,988	(2,588)
Professional services	13,000	15,303	20,979	(5,676)
Communications	14,000	14,000	20,767	(6,767)
Insurance	19,800	19,800	19,321	479
Operating supplies	8,000	8,000	8,950	(950)
Occupancy	10,400	10,400	3,629	6,771
Total public safety - police	620,581	620,581	633,769	(13,188)
Debt service:				
Principal	17,500	17,500	18,418	(918)
Interest	900	900	975	(75)
Capital outlay	-	-	28,263	(28,263)
Total expenditures	638,981	638,981	681,425	(42,444)
EXCESS OF REVENUES UNDER EXPENDITURES	<u>\$ (13,900)</u>	<u>\$ (13,900)</u>	<u>\$ (25,320)</u>	<u>\$ (11,420)</u>

Ontwa Township-Edwardsburg Police Department
BUDGETARY COMPARISON SCHEDULE - Operating Fund (Continued)
Year ended March 31, 2008

	<u>Original budget</u>	<u>Amended budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXCESS OF REVENUES UNDER EXPENDITURES (from page 12)	\$ (13,900)	\$ (13,900)	\$ (25,320)	\$ (11,420)
OTHER FINANCING SOURCES				
Proceeds from issuance of debt	<u>-</u>	<u>-</u>	<u>24,964</u>	<u>24,964</u>
CHANGE IN FUND BALANCES	(13,900)	(13,900)	(356)	\$ 13,544
FUND BALANCES - BEGINNING	<u>422,986</u>	<u>422,986</u>	<u>422,986</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 409,086</u>	<u>\$ 409,086</u>	<u>\$ 422,630</u>	<u>\$ 13,544</u>

September 29, 2008

Members of the Board
Ontwa Township-Edwardsburg Police Department
Cass County, Michigan

We have audited the financial statements of the governmental activities and the major fund, of the Ontwa Township-Edwardsburg Police Department for the year ended March 31, 2008, and have issued our report thereon dated September 29, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 1, 2008, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Ontwa Township-Edwardsburg Police Department are described in Note 1 of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the Ontwa Township-Edwardsburg Police Department during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was capital asset depreciation.

- Management's estimate of the capital asset depreciation is based on the estimated useful lives of the Department's capital assets. We evaluated the key factors and assumptions used to develop the capital asset depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.



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The disclosures in the financial statements are neutral, consistent, and clear.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Management has recorded all of our proposed audit adjustments.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter associated with the audit for the year ended March 31, 2008.

Other Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Ontwa Township-Edwardsburg Police Department's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Communication Regarding Internal Control

In planning and performing our audit of the financial statements of Ontwa Township-Edwardsburg Police Department, Cass County, Michigan, as of and for the year ended March 31, 2008, in accordance with U.S. generally accepted auditing standards, we considered the Department's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Our consideration of internal control included procedures to evaluate the design of controls relevant to an audit of financial statements and to determine whether they had been implemented, but it did not include procedures to test the operating effectiveness of controls and, accordingly, was not directed to discovering significant deficiencies in internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we have identified certain deficiencies in internal control that we consider to be significant deficiencies and deficiencies that we consider to be material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Department's ability to initiate, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Department's financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

- Policies and procedures to assure creation and/or maintenance of proper time reporting documentation and approval were not in place. We recommend that hours worked by the assistant chief be documented and approved; that the assistant chief review all gross pay transactions processed by others; and that employees document their acceptance of changes to time reports (including hours and classification of hours).

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department's internal control. We believe that the following deficiencies constitute material weaknesses.

- Policies and procedures to prepare financial statements in accordance with U.S. generally accepted accounting principles, including procedures to record receivables and payables, changes in capital assets and related debt, and to develop appropriate footnote disclosures were not in place. As in prior years, the Department has relied upon our firm as auditor to identify and develop material adjustments necessary to convert cash basis financial statements into full accrual financial statements and to prepare the financial statements and appropriate disclosures. This service is allowable under current auditing standards and ethical guidelines, and may be the most efficient and effective method for preparation of the Department's financial statements. However, when an organization (on its own) lacks the ability to produce financial statements that conform to generally accepted accounting principles, or when material audit adjustments are identified by the auditor, auditing standards require that such conditions be communicated in writing as material weaknesses. The Department has determined that the additional benefits derived from implementing such a system would not outweigh the costs incurred to do so. This is a recurring comment.

Board of Trustees
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September 29, 2008

This report is intended solely for the information and use of the Department's Board, management, others within the Department and Department of Treasury of the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

Sigfried Crandall P.C.